

Message Text

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PAGE 01 BRASIL 04486 090910Z
ACTION ARA-14

INFO OCT-01 EUR-12 ISO-00 L-03 FRB-01 OMB-01 ITC-01
SP-02 ICA-20 AGRE-00 AID-05 CIAE-00 COME-00 EB-08
INR-10 IO-14 LAB-04 NSAE-00 OIC-02 SIL-01 STR-07
TRSE-00 CEA-01 SS-15 PA-02 AF-10 EA-12 NEA-11
DRC-01 /158 W

-----001440 090915Z/17

R 071835Z JUN 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7795
INFO AMEMBASSY LONDON
AMEMBASSY BOGOTA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

UNCLAS BRASILIA 4486

C O R R E C T E D C O P Y (MRN 4486 VICE 4473)

E.O. 11652: N/A
TAGS: EAGR, BR
SUBJECT: POSSIBLE COFFEE FREEZE IN BRASIL: PRELIMINARY
BRAZILIAN VIEW OF CONSEQUENCES

REF: (A) RIO DE JANEIRO 2250, (B) BRASILIA 2903, (C) FAS BB 8027

1. SUMMARY: CONTINUED COLD WEATHER IN BRAZIL'S SOUTHERN COFFEE-PRODUCING REGIONS HAS LED COFFEE GROWERS AND TRADE TO EXPECT COFFEE FROST THIS YEAR. GROWERS ARE KEEPING COFFEE OFF THE MARKET IN HOPES OF HIGHER PRICES. IBC HAS ANNOUNCED CONTINGENCY PLANS TO SUSPEND EXPORTS IF FROST OCCURS. THERE IS GROWING AWARENESS IN BRAZIL THAT A FROST MIGHT BRING SUBSTANTIAL SHORT TERM BENEFITS BUT WOULD BE CATASTROPHIC IN THE LONGER RUN. END SUMMARY.

2. COLD WEATHER AND LIGHT FROSTS IN THE MAJOR BRAZILIAN
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COFFEE PRODUCING STATE OF PARANA (MOST SERIOUSLY AFFECTED AREA IN THE 1975 FROST) HAVE LED MANY GROWERS AND DOMESTIC AND FOREIGN TRADERS TO EXPECT A MAJOR COFFEE FREEZE THIS YEAR. RECENT INCREASES IN COFFEE PRICES OF THE NEW YORK AND LONDON COFFEE MARKETS HAVE BEEN REFLECTED BY RISING COFFEE PRICES IN THE BRAZILIAN DOMESTIC TRADE, BUT ACCORDING TO PRESS REPORTS MANY

GROWERS ARE HOLDING THEIR RECENTLY-HARVESTED COFFEE OFF THE MARKET IN HOPES OF OBTAINING EVEN HIGHER PRICES. IN ADDITION, GROWERS HAVE STOPPED SELLING TYPE 6 COFFEE TO THE IBC AT THE FIXED PRICE OF 2,000 CRUZEIROS/BAG, A FAVORABLE PRICE BEFORE RECENT INCREASE (REF A).

3. JUNE 6 JORNAL DO BRASIL (RIO DE JANEIRO) REPORTED THAT BRAZILIAN COFFEE INSTITUTE (IBC) HAS PREPARED AUTOMATIC CONTINGENCY PLANS FOR THE SUSPENSION OF COFFEE EXPORTS IF A SEVERE FREEZE OCCURS. ACCORDING TO THE JORNAL DO BRASIL ARTICLE, IBC PRESIDENT CALAZANS STATED THAT SUCH A SUSPENSION WOULD BE TEMPORARY AND WOULD LAST LONG ENOUGH FOR THE IBC TO EVALUATE FROST DAMAGE AND REVISE MINIMUM EXPORT REGISTRATION PRICES. COMMENT: IF THE FREEZE WERE SEVERE ENOUGH TO PUT INTO DANGER THE SUPPLY OF COFFEE TO THE DOMESTIC MARKET, IT IS LIKELY THAT THE IBC WOULD INSTITUTE A PROGRAM SUCH AS THE RECENTLY-EXPIRED "CONTINGENCIAMENTO" WHEREBY COFFEE EXPORTERS HAD TO SELL ONE BAG OF COFFEE TO THE DOMESTIC COFFEE INDUSTRY AT A FIXED PRICE IN ORDER TO EXPORT TWO BAGS. CURRENT ANNUAL DOMESTIC COFFEE CONSUMPTION IS ESTIMATED AT 7-8 MILLION BAGS. END COMMENT.

4. DESPITE SOME DEGREE OF GROWER EUPHORIA OVER RISING COFFEE PRICES, MANY MEMBERS OF THE COFFEE SECTOR IN UNCLASSIFIED

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BRAZIL REGARD THE OCCURRENCE OF A MAJOR FREEZE THIS YEAR AS A DISASTER. THE PRESIDENT OF CAFE CACIQUE, ONE OF BRAZIL'S LARGEST COFFEE PROCESSORS, FOR INSTANCE, WAS QUOTED IN THE JUNE 6 GAZETA MERCANTIL (SAO PAULO) AS SAYING, "A FREEZE AT THIS POINT WOULD BE CATASTROPHIC. FIRST, BECAUSE IT WOULD DISCOURAGE COFFEE GROWERS IN CERTAIN REGIONS, AND SECOND BECAUSE IT WOULD CAUSE A NEW RETRACTION IN COFFEE CONSUMPTION." THE JUNE 2ND ESTADO DE SAO PAULO CARRIED A NUMBER OF SIMILAR COMMENTS. VARIOUS COFFEE SECTOR SOURCES WERE QUOTED AS SAYING THAT COFFEE PRICES ABOVE \$2/LB WOULD HAVE NEGATIVE EFFECTS ON CONSUMPTION. EVEN GOB MINISTER OF INDUSTRY AND COMMERCE CALMON DE SA ADMITTED IN THE JUNE 3 ESTADO DE SAO PAULO THAT A COFFEE FREEZE THIS YEAR "WOULD NOT BRING BENEFITS TO BRAZIL, SINCE LOW COFFEE STOCKS WOULD NOT PERMIT PROFITS FROM A PRICE RISE."

5. ON THE OTHER HAND, THE ABILITY OF BRAZIL TO TAKE ADVANTAGE OF PRICE RISES CAUSED BY FROST SPECULATION AND/OR FROM A MODERATE FROST ITSELF SHOULD NOT BE DISCOUNTED. COFFEE STOCKS WERE ESTIMATED AT 15 MILLION BAGS ON APRIL 1 (REF B), AND ALLOWING FOR REPORTED

EXPORTS OF 1.1 MILLION BAGS IN APRIL AND 1 MILLION IN MAY AND ESTIMATED CONSUMPTION OF .6 MILLION BAGS/ MONTH, COFFEE STOCKS AS OF JUNE 1 WOULD BE 11.7 MILLION BAGS (LESS THAN ONEBATHIRD THE STOCKS AVAILABLE AT THE TIME OF THE 1975 FROST, HOWEVER). COFFEE PRODUCTION THIS YEAR, ALLOWING FOR RECENT DRAUGHT DAMAGE (BUT ASSUMING NO RPT NO FROST DAMAGE), IS CURRENTLY ESTIMATED BY FAS AT 19.5 MILLION BAGS (REF C). (CURRENT UNOFFICIAL IBC PRODUCTION ESTIMATE IS 18 MILLION BAGS.

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Message Attributes

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Decapton Note:
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